

Course Introduction

MARKETING 550

Introduction to Market Analysis

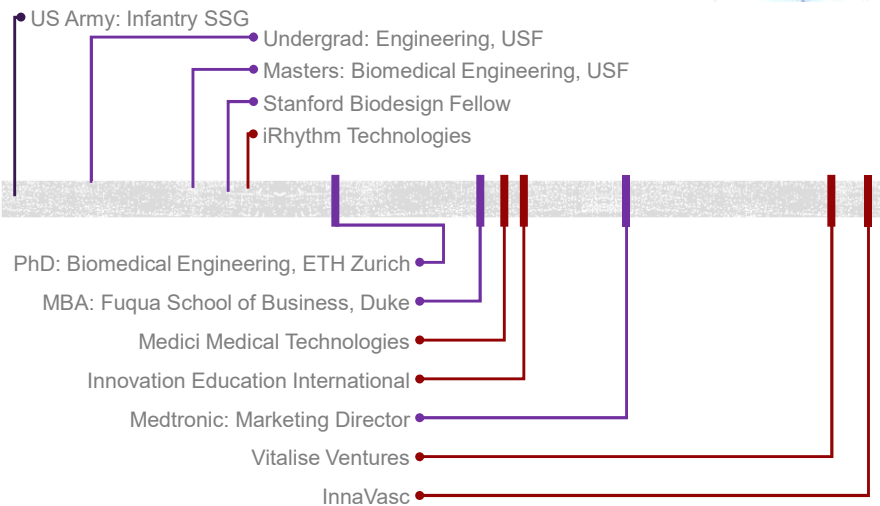
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Overview of Introduction

- Introduction to:
 - Joe Knight
 - Marketing
 - This course
- Tools of marketing
 - Breakeven analysis & cannibalization
 - Markup & margins
 - Sensitivity analysis

Joseph Knight



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Simple Word Association Exercise

- Want to measure the key concepts that you connect with a brand or idea

- Examples

- Nike
- Just do it
- Duke
- Basketball



5

Your turn

6

Background and Objectives

- Marketing is about creating, communicating and delivering value to customers
- Course objectives: By end of course you should
 - Know what questions to ask
 - Have some knowledge of what data to collect
 - Have the skills necessary to answer these questions
 - Know what actions might be appropriate to take in a given context
 - Have a market orientation

7

What is market orientation?

- Sensitive to customer needs
- Aware of competitors' actions
- Based on knowledge of customer needs and competitive actions coordinate organization to deliver an efficient market-based customer solutions

8

Implications of market orientation in terms of knowledge

- Need to understand the customer
- Need to know about the competition
- Need to know company capabilities
- Need to understand the general environment

9

Basic Questions

- Who are my customers? What do they want?, etc.
- Who is my competition? What do they offer? How might they react to my actions?, etc.
- What are my core capabilities? What are my costs? How will my actions affect the rest of the company?, etc.
- How can I gain a differential advantage?
- What actions should I take based on the above answers?

10

Interplay of 3C's and 4P's

- The 3 C's (customer, competition, and company) help you:
 - determine where opportunities may be in the market
 - develop the strategy and tactics to exploit those opportunities
- You can then use the 4 P's as levers to exploit those opportunities
 - Product
 - Price
 - Promotion
 - Place (channel)

11

The 4 P's an example



Product		
Price		
Promotion		
Place (channel)		

12

Marketing Manages Three Key Assets

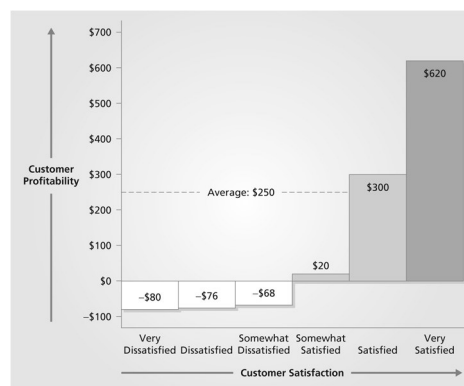
- The Brand
 - The Customers
 - The Collaborators
-
- My goal is to get you to the point where you understand how to measure the performance of each of these assets

13

Customer Satisfaction

- Measuring Customer Satisfaction
 - Customer Satisfaction Index (CSI)
- Why is it important?
 - Directly correlated to profits
 - Leading indicator of operating performance
- Impact of Dissatisfied Customers

Figure 1-5 De-averaging Customer Satisfaction and Customer Profitability



14

What makes Marketing different from many other courses?

- Marketing is integrative versus linear
- Need to consider how any action might affect all aspect of the situation
- Often there is no ONE right answer, but there are wrong answers

15

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16

Teaching Philosophy

- Lesson first, Problem second
versus
- Problem first, Lesson second
- "Experience is a hard teacher because she gives the test first, the lesson afterward."
- "There is no comfort in the growth zone, but there is no growth in the comfort zone."

17

Course Format

- Lectures and cases in class
- Simulation exercise (PharmaSim) outside class
- Why Emphasize Cases and Simulation So Much?
 - Great way to expose you to the "business" of marketing
 - Allow you to put to practice the material in the text
 - Lessons you struggle through become internalized
 - Opportunity to be creative and present own ideas
 - Critical to develop ability to persuade others to adopt your recommendations

18

Why old cases?

- By definition all cases are “old”. i.e., they look back
- Cases are used to get you to develop skills to look forward
 - Understand the current environment, key issues, etc.
 - Predict what will happen in the future based on your actions
- Requires you to develop a strategy for figuring out how the “world” works

19

Expectations

- Your **responsibility** as a student:
 - Take responsibility for learning—yours and others
 - Show respect and care for others
 - Provide constructive feedback
 - Come to each class, arrive on time and prepared
 - Actively participate and contribute
 - Focus on preparation every single day
 - Norm is 4 hours of preparation for every class
 - Keep the classroom a professional environment

20

Expectations (continued)

- My **responsibility** as Faculty
 - Design & deliver a professional experience
 - Challenge you to think
 - Provide honest, timely and constructive feedback
 - Demonstrate awareness of and respect for diverse views
 - Manage the in-class experience

21

Expectations (continued)

- Out of class expectations
 - Approximately 2hrs for every class hour (or 8-10hrs/week)
 - In particular read the case and come prepared to contribute
- Class
 - I will do some cold-calling, be ready
 - Raising your hand does not guarantee that you will be called upon
 - Everyone expected to add value
 - Everyone comes to class
- Timing: We start on time—We finish on time
- Tone: Challenging but constructive

22

Course Administration

- <https://sakai.duke.edu>
- Schedule: See syllabus
- Reading materials
 - Coursepack has all required readings
 - Kotler and Keller text is “optional” but strongly recommended
- Graded assignments
 - Group work
 - two case write ups (Unilever in Brazil, Medicines Co.)
 - two PharmaSim papers & PharmaSim performance
 - Individual work
 - three quizzes
 - final exam
- Participation (Class and Group)

23

General flow of classes

- In class we will spend the first part of class (normally) on the case for that day, and the second part will be lectures
- Most assignments are due on Mondays at 9AM. Check syllabus for specific times and dates
- I use the course website for announcements
- I will pass out the slides for the second part of the class

24

Questions?

25

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26

Basic setting for most marketing decisions

- Marketing is both a rigorous discipline and one that requires “art”
- Marketing, unlike much of accounting, finance, etc. often lacks all the numbers necessary to know what will be the exact outcome
- Goal is to learn how to make reasoned decisions

27

Marketing Math

- #3 recruiter priority (analytical skills)
 - Ahead of leadership potential, strategic thinking, years of experience, and original and visionary thinking
 - WSJ survey of recruiters
- Most business scenarios involve qualitative and quantitative components

28

Break Even Analysis

- Use in situations where there is lots of uncertainty
- Ask the question:
 - "What is needed in terms of sales, price, etc. for to at least break even, i.e. cover my initial investment or costs?"
- Implies looking for the sales that yield profit equal to zero

29

Break Even Analysis

- Profit = $(P - VC) * Q - FC$
 - P = price
 - VC = variable costs
 - Q = quantity
 - FC = fixed costs

30

Break Even Analysis – an example

- Apple has a new iPhone
 - \$10,000,000 in marketing
 - \$10,000,000 in R&D
 - Retail price is \$500
 - Variable cost of phone is \$100
 - How many phones does Apple need to sell to break even?



31

What do we need to know?

- Fixed costs (Marketing, R&D)
- Variable costs
 - What is the price of the phone?
 - Retail price or wholesale price?

32

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33

Margins & Mark-up: Need to know the difference

- % **Margin** based on **Price**

- % **Markup** based on **Cost**

34

What is the wholesale price?

- Assume retailer markup is 100%. What is the wholesale price?

35

What is the margin (for the retailer)?

36

Breakeven Analysis

- $\text{BE Quantity} = \text{Fixed Costs} / \text{Variable contribution}$

Is this a lot? Or a little?

37

Cannibalization

- New product sales also affect existing product sales, and this must be considered in breakeven analyses

38

Another example, but with cannibalization

- Apple has a new iPhone
\$20,000,000 in Marketing & R&D
Variable Cost = \$150, Retail Price = \$500, Markup = 100%
- What is the Wholesale Price?
- What is the Contribution Margin?
- Assume: 10 phones sold cannibalizes a \$350 margin tablet
- What is the new breakeven?

39

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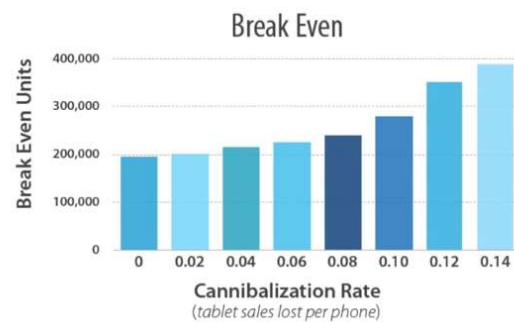
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41

Sensitivity Analysis

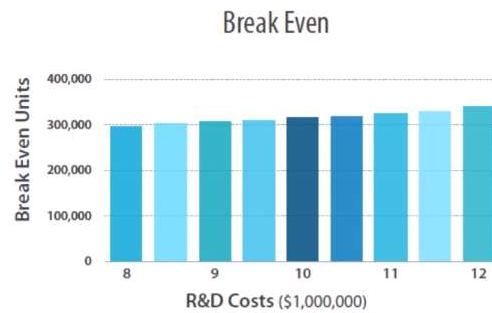
- Suppose cannibalization rate is not well known



42

Sensitivity Analysis

- Suppose R&D is not known...



43

Sensitivity Analysis

- A: if assumption makes no difference, fine
- B: if however it does have an impact, then
 - Calculate expected cost of error
 - Compare to expected cost of more info
 - B1: If info cost < error ; then do research
 - B2: Else, assess whether risk outweighs benefits
- Without quantitative analysis, one can not know whether A or B (B1 or B2) is the case
- Quantitative analysis highlights risks

44

Analysis of Price Cut (BE analysis)

- How many extra units would we need to sell to justify our price cut?

- Current Contribution = $(P - VC) * X$

where P = Price

VC = Variable Costs

X = Current sales

- Contribution with Price Cut of D%

New contribution = $(P(1 - D) - VC) * Y$

where Y = New Sales

45

Analysis of Price Cut – Example Calculation

- How much of an increase in sales is needed for a 20% discount?

- Increase in Sales = $\text{Current Contribution \%} / (\text{Current Contribution \%} - D)$

46

Summary on Tools

- In marketing, there are lots of uncertainties
- We need an approach to gauge that is needed to cover our investment (or initial position)
- We do this via Breakeven Analysis, along with Sensitivity Analysis

47

Advice

- In cases, there are many, many numbers and many, many analyses
 - The foregoing are only a small set
- Without a structure you will quickly get lost (sometimes even with structure)
- Even harder in the real world, because you need to sort through and collect much more information
- So, how to proceed?

48

Advice

- Step 1: Define the problem to be solved
 - For example, if the goal is to determine if this idea will work, then a breakeven analysis may make sense
- Step 2: Break the problem into smaller pieces
 - Ex. what do you need to know to do a breakeven?
 - Fixed costs, variable costs, prices
 - Solve these one by one
 - What are all the variable costs? If they are known, great.
 - If not:
 - Can they be determined?
 - If not, do a sensitivity analysis

49

Advice

- Step 3: Once all the pieces have been solved one by one, add them back up, $BE = FC / (P - VC)$
 - Do not try to do everything at once
- Last, remember the analyses must have some purpose, otherwise you will get lost – Always start with the objectives

50

Is Marketing Math = Fuzzy Math?

- Yes, marketing math is fuzzy math!
 - So is business math
 - Finance – cost of capital?
 - Accounting – cost of goods?
 - Math highlights assumptions
 - But... less fuzzy than with no math

51

Final Summary

- Assessing the merits of a business opportunity invariably means working the numbers
- Math helps the strategy and strategy influences the math
- Marketing combines precise numbers with rough assumptions
 - Vaguely right beats precisely wrong
 - Sensitivity analysis and research mandated if assumptions affect answers

52

Key Takeaways

- 3 C's (customer, competition, company) help a firm identify opportunities & provides the basis for the strategy and tactics to exploit those opportunities
- 4 P's (product, price, place, promotion) are the levers a firm can pull to exploit its opportunities
- Breakeven analysis can help in situations where there is a lot of uncertainty and provides the minimum needed to cover an initial investment
- Sensitivity analysis highlights risks
- Cannibalization is the impact of a new product on existing sales
- $\% \text{ Margins} = (\text{Price} - \text{Cost}) / \text{Price}$
- $\% \text{ Markup} = (\text{Price} - \text{Cost}) / \text{Cost}$
- Marketing is "Soft" and rigorous
 - That's what makes it fun!

53